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SC PUBLIC SERVICE  
COMMISSION

February 10, 2005

Mr. Charles L.A. Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210

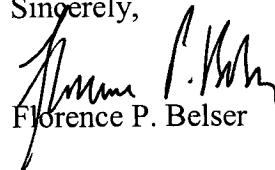
Re: Application of Midlands Utility, Inc. for an approval of New Schedule of Rates and Charges for Sewage Service provided to its customers in Richland, Lexington, Fairfield and Orangeburg Counties.  
PSC Docket No.: 2004-297-S

Dear Charles:

Enclosed for filing please find twenty-six copies of direct testimony for the following Office of Regulatory Staff witnesses: Dawn Hipp, Willie Morgan, and Roy Barnette. Please date stamp the extra copy enclosed and return it to me via person delivery same.

Please let me know if you have any questions.

Sincerely,

  
Florence P. Belser

FPB/cc  
Enclosures

cc: Charles Cook, Esquire



**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2004-297-S**

IN RE: Application of MIDLANDS )  
UTILITIES, INC. for an Approval )  
Of New Schedule of Rates and )  
Charges For Sewage Service )  
Provided to its Customers in )  
Richland, Lexington, Fairfield and )  
Orangeburg Counties. )  
\_\_\_\_\_ )

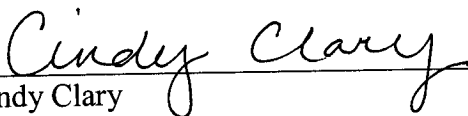
**CERTIFICATE OF SERVICE**

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This is to certify that I, Cindy Clary, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the Direct Testimony and Exhibits of: Dawn M. Hipp, Willie J. Morgan, and Roy Barnette in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Charles Cook, Esquire  
**Elliott & Elliott, P.A.**  
721 Olive Street  
Columbia, South Carolina 29205

  
Cindy Clary

February 10, 2005  
Columbia, South Carolina



177726

**THE OFFICE OF REGULATORY STAFF  
DIRECT TESTIMONY AND EXHIBITS**

**OF**

**Roy H. Barnette**

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COMMISSION



RETURN DATE: \_\_\_\_\_  
OFFICE: OK RBD

**DOCKET NO. 2004-297-S  
MIDLANDS UTILITY, INC.  
APPLICATION FOR RATE INCREASE  
TEST YEAR ENDED DECEMBER 31, 2003**



**TESTIMONY OF ROY H. BARNETTE****FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2004-297-S****IN RE: MIDLANDS UTILITY, INC.**

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**Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

**A.** My name is Roy H. Barnette. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff as an Auditor.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.**

**A.** Following a six-year enlistment in the United States Marine Corps, I received a B. S. Degree in Business Administration, with a major in Accounting, from the University of South Carolina in 1968. From 1968 to 1971, I was employed with S. D. Leidesdorf and Company, a national CPA firm in Charlotte, North Carolina. In 1972, I entered the private business sector where I worked for Bagnal Builders Supply Company, Inc., in Columbia, South Carolina, serving as Senior Vice President and Chief Financial Officer from 1972 until September 1999. From September 1999 until

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**THE OFFICE OF REGULATORY STAFF  
1441 Main Street, Suite 300, Columbia, SC 29201  
Post Office Box 11263, Columbia, SC 29211**



1 December 2004, I was a member of the Audit staff of the South Carolina Public  
2 Service Commission where I participated in cases involving gas, water and  
3 wastewater companies. In January 2005, I began my employment with the Office of  
4 Regulatory Staff (ORS).

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING**  
6 **MIDLANDS UTILITY, INC.?**

7 A. The purpose of my testimony is to set forth my findings and recommendations  
8 resulting from the ORS Staff's review of the application of Midlands Utility, Inc.  
9 (MUI), in this docket.

10 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**  
11 **TESTIMONY.**

12 A. I have attached the ORS Audit Report related to MUI's Application for a Rate  
13 Increase, Docket No. 2004-297-S. The contents of the Audit Report were either  
14 prepared by me or were prepared under my direction and supervision in compliance  
15 with recognized accounting and regulatory procedures for Water and Wastewater  
16 utility rate cases.

17 **Q. PLEASE EXPLAIN THE CONTENTS OF THE AUDIT REPORT.**

18 A. As outlined in the Index of the Audit Report, pages 1-4 contain the analysis of MUI  
19 and its application. The remaining pages consist of exhibits which were prepared to  
20 show various aspects of MUI's operations and financial position. The majority of  
21 my testimony will refer to Audit Exhibit A - Operating Experience and Operating  
22 Margin as shown on page 5 of the Audit Report.



1 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT A.**

2 A. Column (1) shows per book balances of MUI as of June 30, 2004. I verified the per  
3 book balances to the books and records of MUI.

4 Column (2) shows my accounting and pro forma adjustments designed to normalize  
5 MUI's per book operations.

6 Column (3) shows my computation of MUI's normalized test year prior to  
7 implementing the proposed increase.

8 Column (4) shows ORS's adjustments for the proposed rate increase as furnished by  
9 the Water/Wastewater Department and the adjustments associated with the additional  
10 revenues. As explained by ORS witness Dawn Hipp, the proposed rate increase used  
11 by ORS is based on MUI's proposed rate increase associated with Phase I only.

12 Column (5) shows our computation of the normalized test year after accounting and  
13 pro forma adjustments, including the proposed Phase I rate increase and associated  
14 adjustments.

15 Column (6) shows ORS's adjustments for After Construction Operations as  
16 furnished by the Water/Wastewater Department, and other adjustments made by the  
17 Audit Department to reflect the inclusion of the new plant and to adjust those  
18 accounts affected by this inclusion.

19 Column (7) shows our computation of the After Construction Operation results after  
20 adjustments associated with the proposed construction and revenues.

21 **Q. PLEASE ELABORATE ON THE CALCULATIONS IN AUDIT EXHIBIT A -**  
22 **OPERATING EXPERIENCE AND OPERATING MARGIN.**



1 A. Column (1) shows the per book operating experience of MUI. We computed Total  
2 Income (Loss) for Return of \$1,682 based on Total Operating Revenues of \$956,500  
3 less Total Operating Expenses of \$954,840 plus Customer Growth of \$22. Total  
4 Income (Loss) for Return of \$1,682 and Total Operating Revenues of \$956,500  
5 produced an Operating Margin of 0.18%.

6 In Column (2), our accounting and pro forma adjustments are presented to normalize  
7 MUI's test year operations. A description of each adjustment is contained in Audit  
8 Exhibit A-1.

9 Column (3) is the sum of Columns (1) and (2) and reflects the As Adjusted figures.  
10 The accounting and pro forma adjustments resulted in Total Income (Loss) for  
11 Return of \$11,930 including Customer Growth of \$158, and using Total Income  
12 (Loss) for Return of \$11,930 and Total As Adjusted Operating Revenues of  
13 \$612,692, an Operating Margin of 1.95% was computed.

14 Column (4) shows the effect of the proposed increase as computed by the  
15 Water/Wastewater and Audit Departments. These adjustments are detailed in Audit  
16 Exhibit A-1.

17 Column (5) shows per book operations as adjusted to normalize the test year and  
18 revenues after the proposed increase is added to As Adjusted Revenues. In other  
19 words, Column (5) represents per book operations including our proposed  
20 adjustments and revenues for Phase I of MUI's proposed rate increase. Using Total  
21 Operating Revenues of \$936,501, Total Operating Expenses of \$727,921 and  
22 Customer Growth of \$2,808, I computed Net Operating Income and Total Income for



1 Return of \$211,388. Using the Total Income for Return of \$211,388, and Operating  
2 Revenues of \$936,501, I computed an Operating Margin of 22.57% after the increase  
3 proposed by MUI.

4 Column (6) shows the effect of the After Construction increase as computed by the  
5 Water/Wastewater and Audit Departments. These adjustments are detailed in Audit  
6 Exhibit A-1.

7 Column (7) - shows After Construction Operations after these amounts have been  
8 adjusted to reflect changes in plant and other accounts affected by the construction.

9 In other words, Column (7) represents After the Proposed Increase adjusted for  
10 proposed adjustments and revenues for Phase II of MUI's proposed rate increase.

11 Using Total Operating Revenues of \$971,701, Total Operating Expenses of \$772,148  
12 and Customer Growth of \$2,685, I computed Total Income for Return of \$202,238.

13 Using the Total Income for Return of \$202,238 less Interest Expense of \$38,434 and  
14 Operating Revenues of \$971,701, I computed an Operating Margin of 16.86% after  
15 the increase proposed by MUI.

16 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT A-1.**

17 **A.** The adjustments are as follows:

18 Adjustment # 1 – The Water/Wastewater Department proposes to adjust revenues  
19 using a bill frequency analysis for the test year ended June 30, 2004. ORS's witness  
20 Dawn Hipp provided me with the results of the bill frequency analysis, and in her  
21 testimony, Ms. Hipp provides an explanation of the procedure used. The As Adjusted  
22 Service Revenues computed by the Water/Wastewater Department Staff totaled



1       \$583,389. Subtracting the per book revenues of \$919,041 results in an adjustment of  
2       (\$335,652). The As Adjusted Revenue as calculated by ORS does not include outside  
3       treatment charges which are billed by the provider to MUI who then charges its  
4       customers for the service. MUI included in its booked Service Revenue treatment  
5       charges collected from its customers whose sewer was treated by an outside provider.  
6       ORS removed from expenses treatment charges of \$265,021. (See adjustment #15).

7       Adjustment # 1A – ORS proposes to remove from Other Income interest earned on a  
8       Certificate of Deposit with BB&T Totalling \$306. Interest on CD's is a below the  
9       line item and is not considered for rate making purposes.

10      Adjustment #2 - ORS proposes to reclassify Tap Fees totaling \$7,850, received  
11      during the test year, to Contributions in Aid of Construction (CIAC) and include  
12      them in the Depreciation Expense Adjustment which is provided at Audit Exhibit  
13      A-2. Tap Fees should be used to reduce rate base, rather than be included in revenue.

14      Adjustment # 3 – MUI proposed to increase Officer's salaries by \$19,808. ORS  
15      determined that no salary increases were given during the test year, and therefore, no  
16      adjustment is proposed.

17      Adjustment # 4 – ORS proposes to reduce O&M Expense - Non-Plant Maintenance  
18      expenses for personal travel and miscellaneous expenses of Mr. Charles Parnell in  
19      the amount of \$1,085 paid for by MUI. MUI proposes no adjustment.

20      Adjustment # 5 – ORS proposes to reduce O&M Expenses – Plant Maintenance and  
21      reclassify several items to Plant and Equipment for capitalization purposes. These  
22      items totaled \$16,692 and are included on Audit Exhibit A-2. ORS determined that



1 MUI's proposal to increase this expense by \$228, was an estimate.

2 Adjustment # 6 – ORS proposes no adjustment to the O&M Expense – Chemicals.

3 and determined that MUI's proposal to decrease the expense by (\$639) is due to  
4 rounding.

5 Adjustment # 7 – ORS proposes to reduce O&M Expense – Truck/Auto/Other  
6 expense in the amount of \$825 for personal charges to Mr. Charles Parnell's  
7 American Express card which were paid by MUI.

8 Adjustment # 8 – ORS proposes to increase O&M Expense – Vehicle expense to  
9 record MUI's proportionate share of insurance premiums paid by BRUI. BRUI  
10 paid insurance premiums related to vehicles in the amount of \$3,926 during its test  
11 year ending December 31, 2003. Of that amount \$808 was determined to be for  
12 insurance coverage on personal vehicles and therefore not allowable. The balance  
13 of the payment \$3,118 was allocated to MUI and BRUI based on single family  
14 equivalents. Single family equivalents were 2,937 (69.09%) for MUI and 1,314  
15 (30.91%) for BRUI. Therefore, MUI would be charged 69.09% or \$2,154 and  
16 BRUI 30.91 % or 964. MUI proposed an adjustment of \$1,695, which ORS  
17 determined was an estimate.

18 Adjustment # 9 – ORS proposes to adjust O&M Expense – Vehicle expense to  
19 allocate truck expenses to reflect 1/3 of the expense to MUI. MUI stated that it used  
20 the Ford F-250 owned by DSI 1/3 of the time. Total truck expenses as reflected on  
21 the books of DSI, amounts to \$1,109 which is comprised of \$858 for vehicle  
22 insurance and \$251 for vehicle repairs. One-third (1/3) of \$1,109 is \$370; therefore,



1 to allow one-third (1/3) of the truck expense, ORS's adjustment is \$370.

2 Adjustment # 10 – ORS proposes to adjust Taxes Other Than Income for one-third  
3 (1/3) of the total vehicle taxes paid by DSI on the Ford F-250. MUI stated that it used  
4 the truck one-third (1/3) of the time. The total taxes as booked by DSI were \$328 and  
5 therefore an adjustment of \$109 was required to allocate one-third (1/3) of that  
6 expense to MUI.

7 Adjustment # 11 – ORS does not propose an adjustment to the O&M Expense -  
8 Utilities expense account. MUI proposed a reduction of \$963 which ORS determined  
9 was an estimate.

10 Adjustment # 12 – ORS proposes to allocate to O&M Expense – Insurance expense  
11 a portion of insurance cost paid by BRUI for General Liability and Umbrella  
12 coverage on commercial property. BRUI paid the premiums totaling \$1,180. This  
13 balance was allocated among the three (3) affiliated companies based on the  
14 percentage of single family equivalents. Single family equivalents were 2,937  
15 (54.09%) for MUI; 1,314 (24.20%) for BRUI; and 1,179 (21.71%) for DSI.  
16 Therefore, the amount allocated to MUI is \$1,180 multiplied by 54.09% or \$638.

17 Adjustment # 13 – ORS proposes to reduce O&M Expense – Insurance costs by  
18 (\$4,561). During the test year MUI paid to Auto Owners Insurance Companies  
19 various payments totaling \$10,109 for vehicle coverage. From the listing of vehicles  
20 covered, it was determined by ORS that 20.57% of the premium was for personal  
21 vehicles, or \$10,109 multiplied by 20.57% equals \$2,079. The balance of the total  
22 premium paid (\$10,109-\$2,079) or \$8,030 was allocated to MUI and BRUI based on



1 single family equivalents. The single family equivalents were 2,937 for MUI  
2 (69.09%) and 1,314 (30.91%) for BRUI. Therefore, BRUI was allocated \$8,030  
3 multiplied by 30.91% or \$2,482. of the vehicle insurance premiums. The reduction  
4 proposed by ORS is \$2,079 for personal coverage and \$2,482 to be allocated to  
5 BRUI for a total reduction to insurance expense for this adjustment of (\$4,561).

6 Adjustment # 14 – ORS proposes to reduce O&M Expense – Insurance costs for  
7 General Liability and Umbrella premiums paid by MUI for the benefit of BRUI and  
8 DSI. During the test year MUI made various payments to Auto Owners Insurance  
9 Companies for these coverages totaling \$3,646. ORS proposes to allocate these  
10 premiums to the three affiliated companies based upon single family equivalents, i.e.,  
11 MUI, 2,937 (54.09%). BRUI, 1,314 (24.20%) and DSI, 1,179 (21.71%). Therefore,  
12 ORS proposes to allocate to BRUI \$3,646 multiplied by 24.20% or \$882 and DSI  
13 \$3,646 multiplied by 21.71% or \$792 for a total allocation of (\$1,674). MUI  
14 proposed to increase insurance expense which ORS determined to be an estimate.

15 Adjustment # 15 – Both ORS and MUI propose to adjust O&M Expense – Treatment  
16 Costs. ORS proposes to remove treatment costs of \$265,021 as this is a pass through  
17 expense for collection only customers. The collection only customers will be charged  
18 back for their proportionate share of treatment cost when the bill is received by MUI  
19 from the treatment provider. Therefore, in establishing a collection only rate ORS  
20 proposes that these treatment costs be removed. MUI proposed an adjustment to  
21 increase these costs.



1        Adjustment #16 – ORS proposed no adjustment to O&M Expense – Service  
2        Contracts (DSI). MUI proposes an adjustment of \$27,120. During the DSI rate case,  
3        DSI proposed to increase its revenues as a result of a correction made by DSI to  
4        reflect the appropriate level of treatment expense. DSI proposed to charge MUI, an  
5        affiliated company, \$27,120 for the use of DSI's equipment. No contract was issued  
6        and therefore the adjustment was determined by ORS not to be known and  
7        measurable and therefore disallowed.

8        Adjustment # 17 – ORS proposes to annualize G&A Expense – Salaries Other. ORS  
9        determined that one employee received a salary increase during the latter part of the  
10       test year and therefore ORS proposes to adjust for the increase. Total annualized  
11       wages were calculated to be \$216,298 with total booked wages of \$211,742 resulting  
12       in an adjustment of \$4,556. MUI proposed an adjustment of \$3,450.

13       Adjustment # 18 – ORS proposes to adjust G&A Expense – Professional Fees for  
14       Legal, Consulting, and Attorney fees paid during the test year but were for services  
15       provided to MUI in previous years or were determined to be non-allowable for rate  
16       making purposes. Most of these invoices were billed by Austin, Lewis and Rogers,  
17       P.A. and pertained to the 208 Plan Amendments or for services outside the test year  
18       dealing with litigation involving MUI vs City of Cayce. On the books of MUI, three  
19       accounts, Attorney Fees (\$102,877), Legal Fees (\$37,226) and Consulting Fees  
20       (\$23,540) totaled \$163,463. Following ORS's review of these accounts, it was  
21       determined that \$47,464 was unallowable or was paid for services outside the test  
22       year.



1        Adjustment #19 – ORS proposes to adjust G&A Expense – Other Operation Expense  
2        – Travel in the amount of \$272, for personal travel expenses unrelated to company  
3        business. These were charges made by Mr. Charles Parnell on his American Express  
4        card and paid for by MUI. ORS reduced this expense by \$272. MUI proposed to  
5        increase Other Operating Expense which ORS determined to be an estimate.

6        Adjustment #20 – ORS proposes to adjust G&A Expense – Telephone and Office  
7        expense to remove a \$50 cash contribution made to Dunn's Chapel Church and \$131  
8        of telephone bills paid by MUI for BRUI. MUI proposed an increase to Telephone  
9        and Office expense which was determined by ORS to be due to rounding.

10       Adjustment #21 – ORS proposes to eliminate DHEC fines of \$30,451, as they are not  
11       considered a normal business expense. MUI proposed to increase DHEC fines by  
12       \$9,549.

13       Adjustment # 22 – ORS verified the booked expenses related to Administrative  
14       expense. During the performance of the audit of BRUI, ORS determined the  
15       Administrative expenses of both BRUI and MUI are paid by MUI. ORS compiled  
16       those expenses that make up this category of expense from the books and records of  
17       MUI. Since MUI has a fiscal year ending June 30<sup>th</sup>, ORS took a two-year average of  
18       all expenses in the category in an effort to estimate the appropriate allocation of  
19       Administrative expenses on the books of BRUI. ORS's calculation indicated that the  
20       expenses to be allocated totaled \$88,173. The average expenses were then allocated  
21       to each company based upon single family equivalents, with MUI bearing 69.09% of  
22       the expense and BRUI bearing 30.91% of the expense. ORS therefore recommends



1 an additional \$3,254 in Administrative expenses be allocated to BRUI and the  
2 expense reduced on the books of MUI by (\$3,254).

3 Adjustment #23 – MUI proposes to amortize loan cost of \$81,591. Their proposal is  
4 to amortize MUI's proportionate share of these loan costs at the rate of \$1,500 per  
5 month, over a twenty (20) year period. ORS disallows this adjustment and proposes  
6 that all loan costs be capitalized and no amortization be recognized. By capitalizing  
7 these costs, MUI, will recover the loan costs through depreciation expense over the  
8 useful life of the asset to be constructed with the loan proceeds.

9 Adjustment # 24 – MUI proposes to amortize two and one-half (2 ½) months of total  
10 loan costs, or \$680, based on a useful life of twenty-five years. ORS proposes to  
11 capitalize loan costs and depreciate the costs over the useful life of the asset. Since  
12 the asset has yet to be placed in service ORS disallows this adjustment.

13 Adjustment #25 – Both ORS and MUI propose to adjust G&A Expense for rate case  
14 expenses associated with this filing. ORS proposes to amortize total rate case  
15 expenses of \$27,736 over a five (5) year period for a total adjustment of \$5,547.  
16 ORS's adjustment is comprised of \$1,000 for expenses for accounting services  
17 incurred after the test year, \$25,650 for incurred legal expenses and newspaper  
18 advertisements in *The Times and Democrat* of \$104 and *The State* of \$982, for a total  
19 rate case expense of \$27,736. ORS examined the time between rate cases as one  
20 measure for an amortization period. MUI's previous rate case proceedings were in  
21 1991 and 1997 resulting in an average of approximately seven (7) years between rate  
22 cases. ORS determined a seven (7) year amortization period is too long; therefore,



1 ORS proposes to use a more reasonable amortization period of five (5) years for  
2 recovery of rate case expense. MUI proposes \$20,000 for rate case expense.

3 Adjustment #26 – ORS proposes to allocate Taxes Other Than Income – Property  
4 taxes on the corporate office to BRUI and DSI based upon single family equivalents.  
5 MUI paid the taxes in the amount of \$2,354 to the County of Lexington, S. C. Single  
6 family equivalents are MUI, 2937 (54.09%); BRUI 1,314 (24.20%) and DSI 1,179  
7 (21.71%). Therefore, the allocation to BRUI would be \$2,354 multiplied by 24.20%  
8 for a total of \$570 and DSI would be \$2,354 multiplied by 21.71% for a total of \$511  
9 for a grand total to be allocated to the two companies of \$1,081. MUI does not  
10 propose an adjustment.

11 Adjustment #27 – ORS proposes to adjust Taxes Other Than Income – Payroll taxes  
12 to reflect the change in taxes resulting from the annualized wages adjustment. Payroll  
13 taxes based upon annualized wages totaled \$16,547 (\$216,297 times 7.65%). Payroll  
14 taxes booked for the test year were \$14,555. Therefore, the payroll tax adjustment is  
15 (\$16,547-\$14,555) or \$1,992.

16 Adjustment # 28 – ORS proposes to adjust Taxes Other Than Income – License and  
17 Fees for two items totaling \$575 determined to be non-allowable, i.e. SC Jobs –  
18 Economic Development Authority – application fee of \$500 to apply for JEDA Bond  
19 and Mr. Charles Parnell’s annual membership fee to American Express of \$75.

20 Adjustment #29 - ORS proposes to credit Interest Expense for service charges paid to  
21 Ben Satcher Motors (\$43) and P&S Const (\$8), a total of (\$51) and charge them to  
22 O&M Expenses – Truck Expense and Repairs.



1        Adjustment # 30 – ORS proposes to charge O&M Expense – Truck Expense and  
2        Repairs for service charges paid to Ben Satcher Motors (\$43) and P&S Const (\$8), a  
3        total of \$51 and credit Interest Expense.

4        Adjustment #31 - ORS proposes to remove, as unallowable, interest expense of  
5        (\$885) paid to BB&T associated with Loan Costs, since it was determined that all  
6        loan costs should be capitalized and depreciated over the useful life of the asset.

7        Adjustment #32 – ORS proposes to allocate to BRUI and DSI their proportionate  
8        share of Lexington County property taxes. During the test year MUI paid a total of  
9        \$5,190 in property taxes to Lexington County, consisting of property taxes of \$2,354  
10       on the corporate office building and \$2,836 on four (4) trucks and two (2) trailers.  
11       ORS proposes to allocate the taxes on the corporate office building based on single  
12       family equivalents with 24.20% or \$570 allocated to BRUI and 21.71% or \$511  
13       allocated to DSI. The remainder of the property taxes on the corporate office or  
14       54.09% equaling \$1,273 will remain as a MUI expense. MUI proposes to allocate the  
15       property taxes on the four (4) trucks and two (2) trailers of \$2,836 based on various  
16       usage factors provided by MUI with the majority of the expense remaining with  
17       MUI. Based on the factors provide by the company, \$211 was allocated to BRUI and  
18       \$211 to DSI. The remainder of the property taxes on the trucks and trailers, or \$2,414  
19       will remain as a MUI expense. Therefore, the allocation to BRUI is \$781 and DSI is  
20       \$722 for a total allocation of \$1,503.

21       Adjustment #33 – ORS proposes to adjust Interest Expense to reflect the correct  
22       expense for interest on customer deposits. In Docket No.1996-013-A, Order No.



1 2003-593 dated October 3, 2003, the Commission approved a reduction in rates on  
2 customer deposits from 8%, which was approved by Order No. 93-12, to 3.5%. ORS  
3 calculated the adjustment based on Customer Deposits on the books at June 30, 2004  
4 of \$58,600 multiplied by 3.5% which equals \$2,051. MUI previously had interest  
5 recorded on the books of \$1,813, therefore the interest adjustment is \$2,051 less  
6 \$1,813 or \$238. It should be noted, however, that since this calculation is made on a  
7 going forward basis, interest will still be due and payable at 8% to those customers  
8 who had deposits with MUI prior to December 31, 2003. According to the books and  
9 records of MUI, the Customer Deposits account had a balance of \$56,586 as of  
10 December 31, 2003. MUI proposes an adjustment to Interest Expense of \$32,756.

11 Adjustment # 34 – ORS proposes to increase depreciation expense for plant in  
12 service by \$7,025. This adjustment results from several factors and the calculation of  
13 the total is illustrated in Audit Exhibit A-2. First, ORS proposes to adjust  
14 depreciation expenses using service life periods recommended by the  
15 Water/Wastewater Department. Next, ORS proposes to allocate certain plant  
16 purchased by Development Service, Inc. (“DSI”) that is also used by MUI and Bush  
17 River Utilities, Inc. (“BRUT”). Finally, I reduced the computed depreciation expense  
18 for the depreciation expense associated with tap fees. Tap fees are Contributions in  
19 Aid of Construction (“CIAC”) and should be used to reduce rate base, rather than be  
20 included in revenue. My adjustment removes depreciation expense on plant paid for  
21 by CIAC.



1        Adjustment #35 – ORS proposes to remove from G&A Expense – Salaries – Other,  
2        the salary paid to Mary Parnell during the test year of \$9,360. Mrs. Parnell has no  
3        official job position with MUI.

4        Adjustment #36 - ORS proposes to reduce Taxes Other Than Income – for the  
5        payroll taxes associated with Mrs. Mary Parnell's salary of \$9,360. ORS calculated  
6        its adjustment: \$9,360 multiplied by 7.65% for FICA and Medicare taxes equals  
7        \$716.

8        Adjustment – #37 ORS proposes to reflect the gross receipts taxes associated with  
9        the As Adjusted Revenue. The gross receipts factor includes cost for administration,  
10       the Public Service Commission and the Office of Regulatory Staff. The ORS  
11       adjustment is computed using the As Adjusted Revenue of \$612,692 multiplied by  
12       the gross receipts factor of \$0.007733226 resulting in an amount of \$4,738 less the  
13       per book amount of \$6,564, for a net adjustment of (\$1,826).

14       Adjustment #38 – ORS proposes to adjust expenses for a 1.5% allowance for  
15       uncollectibles associated with the as adjusted service revenues. The 1.5% allowance  
16       is an industry standard and is more than MUI's actual test year uncollectible rate of  
17       1.35%. ORS's adjustment used the As Adjusted Service Revenues of \$583,389  
18       multiplied by the 1.5% allowance factor, for a total adjustment of \$8,751.

19       Adjustment #39 – ORS proposes to adjust for income taxes associated with the As  
20       Adjusted Revenue. See Audit Exhibit A-3 for the computation of income taxes.

21       Adjustment #40 – Both ORS and MUI propose to adjust service revenue for the  
22       proposed increase. ORS's proposed service revenue adjustment amounts to \$323,809



1 as provided by the Water/Wastewater Department. MUI proposes to adjust the  
2 service revenue by a net revenue amount of \$316,238.

3 Adjustment #41 – ORS proposes to reflect the gross receipts taxes associated with the  
4 proposed increase. The gross receipts factor includes cost for administration, the  
5 Public Service Commission and the Office of Regulatory Staff. The ORS adjustment  
6 is computed using the Proposed Increase Revenue of \$323,809 multiplied by the  
7 gross receipts factor of \$0.007733226 resulting in an amount of \$2,504.

8 Adjustment #42 – ORS proposes to adjust expenses for a 1.5% allowance for  
9 uncollectibles associated with the proposed increase. The 1.5% allowance is an  
10 industry standard and is more than MUI's actual test year uncollectible rate of 1.35%.  
11 ORS's adjustment used the proposed increase revenues of \$323,809 multiplied by the  
12 1.5% allowance factor, for a total adjustment of \$4,857.

13 Adjustment #43 - ORS proposes to adjust for income taxes associated with the  
14 Proposed Increase Revenue. See Audit Exhibit A-3 for the computation of income  
15 taxes.

16 Adjustment #44 - Both ORS and MUI propose to adjust service revenues to reflect  
17 changes in revenues after construction. ORS's proposed adjustment to service  
18 revenue amounts to \$35,200 as provided by the Water/Wastewater Department. MUI  
19 proposes to adjust the service revenue by a net revenue amount of \$35,150.

20 Adjustment #45 – ORS proposes to adjust depreciation expense for plant in service by  
21 \$34,062 using ORS recommended depreciation rates including plant upgrades  
22 proposed in Phase II. ORS reduced depreciation for expenses associated with



1 Contributions in Aid of Construction. ORS also proposes to allocate certain plant in  
2 service to Development Service, Inc. and Bush River Utilities, Inc. MUI proposes an  
3 adjustment of \$46,750.

4 Adjustment #46 - ORS proposes to adjust O&M Expense – Chemical expenses to  
5 reflect the projected expense after construction. In the As Adjusted calculation, ORS  
6 proposed no adjustment in the booked balance of \$10,639. Therefore, the adjustment  
7 to get to the after construction expense is \$10,639 less \$5,000 (per application) which  
8 equals an adjustment of (\$5,639).

9 Adjustment #47 – ORS proposes to adjust Taxes Other Than Income to reflect an  
10 increase in property taxes and Gross Receipts tax in the After Construction Phase.  
11 This adjustment is based upon MUI's estimated amount for Taxes in the After  
12 Construction Phase. Gross Receipts taxes on the proposed increase would equal  
13 \$272. MUI proposes a \$5,000 increase in taxes from During Construction to After  
14 construction. ORS proposes a change of \$6,904 from As Adjusted to After  
15 Construction Taxes Other Than Income.

16 Adjustment #48 - ORS proposes to adjust O&M Expenses – Utilities expense to  
17 reflect the change in amount from the As Adjusted balance to the After Construction  
18 amount as proposed by MUI. This is an adjustment from per books of \$40,963 to  
19 \$60,000 per application or \$19,037.

20 Adjustment #49 - ORS proposes to adjust O&M Expenses – Insurance expense to  
21 reflect the change in amount from the As Adjusted balance to the After Construction



1 amount as proposed by MUI. This is an adjustment from Per Books As Adjusted of  
2 \$73,699 to \$98,000 as proposed in the application or \$24,301.

3 Adjustment #50 - ORS proposes to adjust Interest Expense from As Adjusted to the  
4 After Construction amount as proposed by MUI in its application. This adjustment is  
5 calculated as follows: Interest After Construction per application of \$40,485 less  
6 Interest on Customer Deposits As Adjusted of \$2,051 equals the adjustment of  
7 \$38,434.

8 Adjustment #51 - ORS proposes to adjust income taxes associated with the After  
9 Construction Proposed Increase. See Audit Exhibit A-3, Computation of Income  
10 Taxes for details.

11 **Q. DURING THE AUDIT WAS THE ORS ABLE TO VERIFY THE AMOUNTS**  
12 **SHOWN ON THE APPLICATION IN THE AFTER CONSTRUCTION**  
13 **COLUMN?**

14 **A.** No. ORS was unable to verify, during the audit, the amounts shown in the After  
15 Construction column as provided in the application since the plant has not been  
16 constructed and the related expenses realized.

17 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

18 **A.** Audit Exhibit A-2 shows the Depreciation Expense Adjustment. Audit Exhibit A-3  
19 shows the Computation of Income Taxes. Audit Exhibit A-4 shows the Calculation  
20 of Customer Growth during the test year. Audit Exhibit A-5 shows the Income  
21 Statement for the Test Year Ended June 30, 2004. Audit Exhibit A-6 shows the



1 Balance Sheet as of June 30, 2004. Audit Exhibit A-7 shows the Depreciation  
2 Expense Adjustment for the After Construction Phase.

3 **Q. DOES THE COMPANY MAINTAIN ITS BOOKS AND RECORDS IN**  
4 **ACCORDANCE WITH PUBLIC SERVICE COMMISSION RULES AND**  
5 **REGULATIONS?**

6 **A.** No. MUI does not utilize the NARUC chart of accounts, and it does not completely  
7 and accurately record inter-company transactions and allocations with its related  
8 companies, DSI and BRUI.

9 **Q. DOES ORS HAVE ANY RECOMMENDATIONS FOR THE COMPANY?**

10 **A.** Yes. ORS recommends that MUI maintain its books and records for sewer operations  
11 in accordance with the NARUC Uniform System of Accounts for Class B Water and  
12 Sewer Utilities. In previous rate cases, the Commission ordered MUI to maintain its  
13 books and records in accordance with the NARUC Uniform System of Accounts.  
14 See, Commission Order No. 97-517 (June 17, 1997), Docket No. 96-160-S --  
15 Application of Midlands Utility, Inc. for Approval of an Increase in Rates and  
16 Charges for Sewer Service for its Customers in Richland, Lexington, Fairfield and  
17 Orangeburg Counties. Furthermore, 26 S.C. Code Regs. 103-517 requires sewer  
18 utilities to maintain their books and records in accordance with the NARUC System  
19 of Accounts. To ORS's knowledge, MUI has neither sought nor received a waiver of  
20 this requirement from the Commission. Yet, MUI does not maintain its books and  
21 records as required by previous Commission orders and the Commission's  
22 regulations.



1       ORS also strongly recommends to the affiliated companies of DSI, BRUI, and MUI  
2       that they merge their operations and consolidate their books and records. These three  
3       companies share common ownership, purpose, and staffing and inter-company  
4       borrowings of assets, expenses and equipment. In addition, as revealed in the audit of  
5       MUI, allocations of expenses and assets are not being properly made by these  
6       companies. If the companies were merged into one, allocations among the companies  
7       would no longer be a problem.

8       The ORS recognizes the need of MUI to construct the new plant facilities, however,  
9       until that construction is complete, the total expenditures will not be known and  
10      measurable. In the meantime, ORS believes it is in the best interest of the general  
11      public that MUI construct the new facility and that MUI be provided the necessary  
12      rates to obtain the construction loan to fund the plant construction. It is ORS's  
13      opinion that no new rates, which are tied to construction costs, should go into effect  
14      until construction is complete and an audit of those costs is finalized.

15   **Q.   WHAT IS THE RESULTING OPERATING MARGIN COMPUTED BY ORS**  
16   **IN THIS CASE?**

17   **A.   The ORS Staff computed an Operating Margin of 22.57% During Construction**  
18   **(Phase I) and an Operating Margin of 16.86% After Construction (Phase II).**

19   **Q.   DOES THIS CONCLUDE YOUR TESTIMONY?**

20   **A.   Yes, it does.**



**DIRECT EXHIBITS**

**OF**

**ROY H. BARNETTE**

**DOCKET NO. 2004-297-S  
MIDLANDS UTILITY, INC.  
APPLICATION FOR RATE INCREASE  
TEST YEAR ENDED DECEMBER 31, 2003**



**REPORT OF THE AUDIT DEPARTMENT**  
**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2004-297-S**  
**MIDLANDS UTILITY, INC.**



**REPORT OF THE AUDIT DEPARTMENT**  
**THE OFFICE OF REGULATORY STAFF**  
**DOCKET NO. 2004-297-S**  
**MIDLANDS UTILITY, INC.**

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**REPORT OF THE AUDIT DEPARTMENT**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2004-297-S**

**MIDLANDS UTILITY, INC.**

**SYNOPSIS**

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**Amount Requested**

Per Midlands Utility, Inc., During Construction -----	\$316,238
Per Midlands Utility, Inc., - After Construction-----	\$35,150
Per ORS – During Construction-----	\$323,809 *
Per ORS – After Construction-----	\$35,200 *
Percentage Increase – Per ORS – During Construction-----	55.50%
Percentage Increase – Per ORS - After Construction-----	3.88%

**Operating Margin**

Per Books-----	0.18%
As Adjusted-----	1.95%
After Proposed Increase-----	22.57%
After Construction-----	16.86%

\*These figures were computed by the Water/Wastewater Department.



**REPORT OF THE AUDIT DEPARTMENT**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2004-297-S**

**MIDLANDS UTILITY, INC.**

**ANALYSIS**

ORS has made a review of the Application of Midlands Utility, Inc., (hereinafter referred to as "MUI") along with certain of MUI's accounting records, relative to it's application for authority to increase certain rates and charges as shown in Docket No. 2004-297-S.

The ORS respectfully submits the results of its review as follows:

1. MUI filed an application on October 6, 2004 for approval of rates and charges for wastewater services provided to its residential and commercial customers in Richland, Fairfield and Orangeburg Counties in South Carolina.
2. This matter is set for public hearing on Thursday, February 24, 2005 at 10:30 a.m.
3. MUI's principal place of business is 816 East Main Street, Lexington, South Carolina 29072.
4. MUI is a closely held corporation organized and existing under the laws of the State of South Carolina and is a public utility. MUI's application utilizes a June 30, 2004 test period. MUI has requested a new two-step schedule of charges for sewerage service provided to its residential and commercial customers.



The following is a summary of MUI's most recent rates and charges and proceedings:

<u>Date of Order</u>	<u>Effective Date</u>	<u>Docket Number</u>	<u>Amount Requested</u>	<u>Amount Granted</u>	<u>Operating Margin</u>	
06/17/97	06/17/97	96-160-S	\$188,749	\$166,500	12.46%	Approval of Rates
02/28/92	02/28/92	90-528-S	Not Avail.	\$ 73,450	12.96%	Approval of Rates

The ORS's exhibits related to MUI's proposed increase are as follows:

**AUDIT EXHIBIT A: OPERATING EXPERIENCE AND OPERATING MARGIN**

Shown in this exhibit is MUI's sewer operations for the twelve months ended June 30, 2004, with respect to Operating Experience and Operating Margin. The exhibit's format is designed to reflect per book information and applicable accounting and pro forma adjustments necessary to correct or normalize the results of MUI's test year operations.

ORS verified the per book balances to the books and records of MUI. The book figures reflect that Operating Revenues for MUI totaled \$956,500 including Interest Income of \$306. Total Operating Expenses amounted to \$954,840 including Treatment Expense of \$265,021 plus \$28,500 in items classified on the books as other income items but offset against O&M and G&A expenses resulting in a Net Operating Income After Taxes of \$1,660. Customer Growth of \$22 was computed on the per book Net Operating Income resulting in Total Income for Return of \$1,682. Using Total Income for Return of \$1,682 and Operating Revenues of \$956,500, ORS computed a per book Operating Margin of 0.18%. The net effect of the Accounting and Pro Forma Adjustments increased Total Income for Return from \$1,682 to \$11,930, which produces an Operating Margin of 1.95%.

MUI has requested an increase in rates which would produce additional gross annual revenues of \$323,809 based on information supplied by the Water/Wastewater Department. ORS adjusted for uncollectible revenue, gross receipts taxes and income taxes associated with the proposed increase.



After the proposed increase, Total Operating Revenues amounted to \$936,501 and Total Operating Expenses amounted to \$727,921, producing Net Operating Income for Return of \$208,580. ORS calculated a customer growth of \$2,808. Net Operating Income for Return of \$208,580 and Customer Growth of \$2,808 results in Total Income For Return of \$211,388. Using Total Income for Return of \$211,388 and Operating Revenues of \$936,501, ORS computed an Operating Margin of 22.57% after the proposed increase.

After the proposed increase for After Construction Operations, The Total Operating Revenues amounted to \$971,701 and Total Operating Expenses amounted to \$772,148, producing Net Operating Income for Return of \$199,553. ORS calculated a Customer Growth of \$2,685. Net Operating Income for Return of \$199,553 and Customer Growth of \$2,685 results in Total Income For Return of \$202,238. Using Total Income for Return of \$202,238 less Interest Expense of \$38,434 and Operating Revenues of \$971,701, ORS computed an Operating Margin of 16.86% for After Construction Operations.

#### **AUDIT EXHIBIT A-1: EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS**

Shown in this exhibit are the details of each accounting and pro forma adjustment necessary to correct or normalize MUI sewer operations and to reflect the proposed increase. For comparative purposes, MUI and ORS's adjustments are both presented in this exhibit.

#### **AUDIT EXHIBIT A-2: DEPRECIATION EXPENSE ADJUSTMENT**

Shown in this exhibit is ORS's computation of the Depreciation Expense adjustment. ORS annualized Depreciation Expense using rates supplied by the Water/Wastewater Department and allocated certain plant to MUI affiliated companies, Development Service, Inc. and Bush River Utilities, Inc. An adjustment was also made for Depreciation Expense associated with Contributions in Aid of Construction.



### **AUDIT EXHIBIT A-3: COMPUTATION OF INCOME TAXES**

Shown in this exhibit are the computations of corporate state and federal income taxes. ORS used the state tax rate of 5% and federal tax rates of 15%, 25%, 34%, and 39% on the As Adjusted Income and the After the Proposed Increase Income.

### **AUDIT EXHIBIT A-4: CUSTOMER GROWTH**

Shown in this exhibit is the computation of MUI's Customer Growth factor during the test year. ORS computed a growth factor of 1.3462%.

### **AUDIT EXHIBIT A-5: INCOME STATEMENT FOR THE TEST YEAR ENDED JUNE 30, 2004**

MUI's Income Statement for the test year ending June 30, 2004 is reflected in this exhibit. ORS verified all balances contained in this statement to the books and records of MUI.

### **AUDIT EXHIBIT A-6: BALANCE SHEET – AS OF JUNE 30, 2004**

Shown in this exhibit is the Balance Sheet of MUI as of the end of the test year. ORS verified the balances contained in this statement to the books and records of MUI.

### **AUDIT EXHIBIT A-7: DEPRECIATION EXPENSE ADJUSTMENT – AFTER CONSTRUCTION**

Shown in this exhibit is ORS's computation of the Depreciation Expense adjustment. This Depreciation schedule includes the costs associated with the proposed new plant. ORS annualized Depreciation Expense using rates supplied by the Water/Wastewater Department and allocated certain plant to MUI affiliated companies, Development Service, Inc. and Bush River Utilities, Inc. An adjustment was also made for Depreciation Expense associated with Contributions in Aid of Construction.



**MIDLANDS UTILITY, INC.**  
**OPERATING EXPERIENCE AND OPERATING MARGIN**  
**TEST YEAR ENDED JUNE 30, 2004**

Description	(1) Per Books	(2) Accounting & Pro Forma Adjustments	(3) As Adjusted	(4) Effect of Proposed Increase (Phase I)	(5) After Proposed Increase (Phase I)	(6) Adjustment for After Const. (Phase II)	(7) After Const. (Phase II)
	\$	\$	\$	\$	\$	\$	\$
<b><u>Operating Revenues</u></b>							
Service Revenue	919,041	(335,652) (A)	583,389	323,809 (G)	907,198	35,200 (M)	942,398
Other Revenue - Set Up Fees	7,800	0	7,800	0	7,800	0	7,800
Other Revenue - Tap Fees	7,850	(7,850) (A)	0	0	0	0	0
Other Revenue - Late Fees	21,503	0	21,503	0	21,503	0	21,503
Other Revenue - Interest Income	306	(306) (A)	0	0	0	0	0
<b><u>Total Operating Revenues</u></b>	<b>956,500</b>	<b>(343,808)</b>	<b>612,692</b>	<b>323,809</b>	<b>936,501</b>	<b>35,200</b>	<b>971,701</b>
<b><u>Operating &amp; Maintenance Expenses</u></b>	<b>536,687</b>	<b>(286,645) (B)</b>	<b>250,042</b>	<b>0 (H)</b>	<b>250,042</b>	<b>37,699 (N)</b>	<b>287,741</b>
General & Administrative Expenses	355,583	(72,472) (C)	283,111	4,857 (I)	287,968	0 (O)	287,968
Depreciation & Amortization Expense (1)	30,293	7,025 (D)	37,318	0 (L)	37,318	34,062 (P)	71,380
Taxes Other Than Income	29,528	(3,936) (E)	25,592	2,504 (J)	28,096	6,904 (Q)	35,000
Income Taxes(2)	0	2,806 (K)	2,806	119,640 (K)	122,446	(34,438) (S)	88,008
Interest Expense	2,749	(698) (F)	2,051	0	2,051	0	2,051
<b><u>Total Operating Expenses</u></b>	<b>954,840</b>	<b>(353,920)</b>	<b>600,920</b>	<b>127,001</b>	<b>727,921</b>	<b>44,227</b>	<b>772,148</b>
<b><u>Net Operating Income</u></b>	<b>1,660</b>	<b>10,112</b>	<b>11,772</b>	<b>196,808</b>	<b>208,580</b>	<b>(9,027)</b>	<b>199,553</b>
Customer Growth (3)	22	136	158	2,649	2,808	(122)	2,685
<b><u>Total Income For Return</u></b>	<b>1,682</b>	<b>10,248</b>	<b>11,930</b>	<b>199,457</b>	<b>211,388</b>	<b>(9,149)</b>	<b>202,238</b>
<b><u>Operating Margin</u></b>	<b>0.18%</b>		<b>1.95%</b>		<b>22.57%</b>		<b>16.86%</b>
<b><u>Interest Expense for Operating Margin</u></b>	<b>0</b>		<b>0</b>		<b>0</b>	<b>(R)</b>	<b>38,434 (4)</b>

**Notes:**

(1) The computation of Depreciation Expense Adjustment is shown on Audit Exhibit A-2.

(2) Computation of Income Taxes is shown on Audit Exhibit A-3.

(3) Computation of Customer Growth is shown on Audit Exhibit A-4.

(4) This interest amount reflects proposed interest only on Construction Loan. Amount shown on Application \$40,485 less interest on customer deposits of \$2,051 equals \$38,434.



**MIDLANDS UTILITY, INC.**  
**EXPLANATION OF ACCOUNTING AND PROFORMA ADJUSTMENTS**  
**FOR THE TEST YEAR ENDED JUNE 30, 2004**

Revenue & Expenses	Adj #	Description	\$ MUI	\$ ORS
<b>ACCOUNTING AND PRO FORMA ADJUSTMENTS</b>				
(A) Service Revenue	1	The ORS proposes to adjust revenues to reflect test year customer billings. (W/W)	0	(335,652)
(A) Other Revenue - Int. Inc.	1A	ORS proposes to remove interest earned on CD from other income - interest. MUI does not propose an adjustment. (Au)	0	(306)
(A) Other Revenue - Tap Fees	2	ORS proposes to reclassify Tap Fees to Contributions in Aid of Construction (CIAC). MUI does not propose an adjustment. (Au)	0	(7,850)
			<u>0</u>	<u>(343,808)</u>
(B) O & M Expenses	3	MUI proposes to increase officer's salaries. ORS determined that no salary increases were given and therefore no adjustment was necessary. (Au)	19,808	0
	4	ORS proposes to reduce Repairs - Non-Plant Maintenance expenses for personal travel and miscellaneous expenses of Mr. Charles Parnell paid for by MUI. MUI proposes no adjustment. (Au)	0	(1,085)
	5	ORS proposes to reduce Repairs - Plant Maintenance for items determined to be capital expenditures. These items are included on Audit Exhibit A-2. ORS determined that MUI's proposed adjustment is due to rounding. (Au)	228	(16,692)
	6	ORS proposes no adjustment to the Chemical expense and determined that MUI's proposed adjustment is due to rounding. (Au)	(639)	0
	7	ORS proposes to reduce Auto/Truck/Other expense for personal charges to Mr. Charles Parnell's American Express card paid by MUI. (Au)	0	(825)
	8	ORS proposes to adjust vehicle expense to record MUI's proportionate share of insurance premiums paid by Bush River Utilities, Inc. ORS determined that MUI's proposal is due to an estimate. (Au)	1,695	2,154
	9	ORS proposes to allocate truck expenses to reflect 1/3 of the expense for MUI. These expenses were paid by DSI. (Au)	0	370
	11	ORS proposes no adjustment to Utilities expense and determined that MUI's proposal is an estimate. (Au)	(963)	0
	12	ORS proposes to allocate to MUI a portion of insurance costs paid by Bush River Utilities, Inc. for general liability and umbrella coverages on Commercial property. This allocation was based on single family equivalents between the three affiliated companies. (Au)	0	638
	13	ORS proposes to reduce vehicle insurance expense premiums by (\$2,079) for coverage on personal vehicles carried on the MUI policy and to allocate to Bush River Utilities, Inc. its proportionate share of the commercial vehicle coverage, (\$2,482) based on single family equivalents between MUI (69.09%) and BRUI (30.91%). (Au)	0	(4,561)
	14	ORS proposes to reduce General Liability and Umbrella Insurance by (\$1,674) and allocate this amount to BRUI (\$882), (24.20%) and DSI (\$792), (21.71%) based on single family equivalents between the three affiliated companies. MUI proposes to increase Insurance expense. ORS determined MUI's proposal to be an estimate (Au)	8,705	(1,674)



MIDLANDS UTILITY, INC.  
EXPLANATION OF ACCOUNTING AND PROFORMA ADJUSTMENTS  
FOR THE TEST YEAR ENDED JUNE 30, 2004

Revenue & Expenses	Adj #	Description	\$ MUI	\$ ORS
(B) O & M Expenses (continued)				
	15	ORS proposes to remove treatment cost in the amount of \$265,021 as this is a pass through expense for collection only customers. MUI proposes to increase this expense. (Au)	110,979	(265,021)
	16	ORS proposes no adjustment to Service Contracts since there are no contracts between the companies, DSI, BRUI and MUI. MUI proposed an adjustment. (Au)	27,120	0
	30	ORS proposes to reclassify service charges from Ben Satcher (\$43) and P&S Const(\$8) from Interest Expense to O&M Expenses - truck expense and repairs. (Au)	0	51
			<u>166,933</u>	<u>(286,645)</u>
(C) G & A Expenses				
	17	ORS proposes to annualize Salaries - Other. ORS determined that one employee received an increase during the test year. MUI proposed to increase salaries - other. (Au)	3,450	4,556
	18	ORS proposes to adjust Professional fees-Legal. Consulting, Attorney fees to remove those fees that were paid for during the test year but were billings for services outside the test year or were deemed to be non-allowable (Au)	0	(47,464)
	19	ORS proposes to reduce Other Operating Expenses - Travel for personal travel expenses unrelated to the company business. MUI proposed to increase Other Operating Expenses. (Au)	1,612	(272)
	20	ORS proposes to reduce Telephone and Office expense (\$181). This reduction included a \$50 contribution to Dunn's Chapel Church and a BRUI telephone bill in the amount of \$131 paid by MUI. MUI proposes an increase to this account. (Au)	449	(181)
	21	ORS proposes to remove DHEC fines as unallowable for rate making purposes. MUI proposes to increase DHEC fines. (Au)	9,549	(30,451)
	22	ORS proposes to reduce Administrative expenses by \$3,254. The ORS adjustment is based upon MUI's percentage of single family equivalents (69.09%) as compared to BRUI's percentage of (30.91%) times MUI's total average Administrative expenses for the last two (2) fiscal years, 6/30/03 and 6/30/04. (Au)	0	(3,254)
	23	MUI proposes to amortize its proportionate share of loan costs at \$1,500 per year for twenty (20) years. ORS proposes to capitalize loans costs. (Au)	1,500	0
	24	MUI proposes to amortize two and one-half months of loan costs. ORS proposes to capitalize loan costs and depreciate these costs over the useful life of the asset. This amount was included in Other Operating Expenses of the MUI books. (Au)	680	(680)
	25	ORS and MUI propose to amortize rate case expenses. ORS proposes to amortize \$27,736 over a five (5) year period. MUI's last two (2) previous rate cases were in 1991 and 1997 which resulted in an average of approximately seven (7) years between rate cases, however the ORS recommends a more reasonable time period of five (5) years to recover these expenses. MUI proposes \$20,000 in rate case expenses. (Au)	20,000	5,547



**MIDLANDS UTILITY, INC.**  
**EXPLANATION OF ACCOUNTING AND PROFORMA ADJUSTMENTS**  
**FOR THE TEST YEAR ENDED JUNE 30, 2004**

Revenue & Expenses	Adj #	Description	\$ MUI	\$ ORS
<b>(C) G &amp; A Expenses (continued)</b>				
	26	ORS proposes to allocate property taxes on corporate office to BRUI and DSI based upon single family equivalents. MUI does not propose an adjustment. (Au)	0	(1,081)
	27	ORS proposes to adjust payroll taxes associated with annualized wages. MUI does not propose an adjustment. (Au)	0	1,992
	28	ORS proposes to adjust License and Fees for non-allowable items consisting of an application fee for JEDA Bond (\$500) and an American Express annual membership fee for Mr. Charles Pamell (\$75). (Au)	0	(575)
	35	ORS proposes to remove the salary paid to Mary Pamell from G&A - Salaries - Other. Mrs. Pamell has no job duties with MUI. (Au)	0	(9,360)
	38	ORS proposes to adjust expenses for a 1.5% allowance for uncollectibles associated with the as adjusted revenues. (Au)	0	8,751
			<u>37,240</u>	<u>(72,472)</u>
<b>(D) Dep &amp; Amort Expenses</b>				
	34	ORS proposes to adjust depreciation expense for plant in service using ORS recommended depreciation rates. ORS reduced depreciation for expenses associated with Contributions In Aid of Construction. ORS also proposes to allocate certain plant in service to Development Service, Inc. and Bush River Utilities, Inc. MUI proposes to decrease depreciation which ORS determined to be an estimate. (W/W and Au)	(293)	7,025
			<u>(293)</u>	<u>7,025</u>
<b>(E) Taxes Other Than Income</b>				
	10	ORS proposes to allocate truck property tax expense to reflect 1/3 of the expense for MUI. These expenses were paid by DSI. (Au)	0	109
	32	ORS proposes to allocate to BRUI and DSI their proportionate share of Lexington County property taxes paid my MUI on the corporate office building, 4 trucks and 2 trailers. (Au)	0	(1,503)
	36	ORS proposes to remove from Taxes Other Than Income the FICA and Medicare taxes associated with Mary Pamell's salary of (\$9,360 x 7.65%) \$716. (Au).	0	(716)
	37	ORS proposes to reflect the gross receipts taxes associated with the as adjusted revenues. (Au)	0	(1,826)
			<u>0</u>	<u>(3,936)</u>
<b>(F) Interest Expense</b>				
	29	ORS proposes to reclassify service charges from Ben Satcher (\$43) and P&S Const(\$8) from Interest Expense to O&M Expense - Truck Expense and Repairs. (Au)	0	(51)
	31	ORS proposes to classify as unallowable interest expense from BB&T associated with Loan Costs since it was determined that all loan costs should be capitalized and depreciated over the useful life of the asset. (Au)	0	(885)



MIDLANDS UTILITY, INC.  
EXPLANATION OF ACCOUNTING AND PROFORMA ADJUSTMENTS  
FOR THE TEST YEAR ENDED JUNE 30, 2004

Revenue & Expenses	Adj #	Description	\$ MUI	\$ ORS
(F) Interest Expense (continued)				
	33	ORS proposes to adjust Interest Expense to reflect the proper expense as of the end of the test year. This adjustment is based on Customer Deposits of \$58,600 multiplied by the Commission approved rate of 3.5% (\$58,600 times 3.5%) equals \$2,051 less the booked interest of \$1,813. MUI proposes an adjustment of \$32,756. (Au)	32,756	238
			<u>32,756</u>	<u>(698)</u>
<u>ADJUSTMENTS FOR EFFECT OF PROPOSED INCREASE (PHASE I)</u>				
(G) Operating Revenues	40	ORS and MUI propose to adjust revenues for the proposed increase. MUI's proposed revenue is on a net revenue basis of \$316,238. (W/W)	316,238	323,809
			<u>316,238</u>	<u>323,809</u>
(H) Operating & Maintenance				
			<u>0</u>	<u>0</u>
(I) Adm & Gen Expenses				
	42	ORS proposes to adjust expenses for a 1.5% allowance for uncollectibles associated with the Proposed Increase Service Revenues. (Au)	0	4,857
			<u>0</u>	<u>4,857</u>
(J) Taxes Other Than Income				
	41	ORS proposes to reflect the gross receipts taxes associated with the Proposed Increase Revenues. (Au)	0	2,504
			<u>0</u>	<u>2,504</u>
(K) Income Taxes				
	39	ORS proposes to adjust income taxes associated with the As Adjusted Revenue. (Au)	0	2,806
	43	ORS proposes to adjust income taxes associated with the Proposed Increase Revenue. (Au)	28,452	119,640
			<u>28,452</u>	<u>122,446</u>
(L) Depreciation Expense				
			<u>0</u>	<u>0</u>
<u>ADJUSTMENTS FOR AFTER CONSTRUCTION (PHASE II)</u>				
(M) Service Revenue	44	Both ORS and MUI propose to adjust service revenues to reflect changes in revenues after construction. MUI's proposed revenues are on a net revenue basis. (W/W)	35,150	35,200
			<u>35,150</u>	<u>35,200</u>



**MIDLANDS UTILITY, INC.**  
**EXPLANATION OF ACCOUNTING AND PROFORMA ADJUSTMENTS**  
**FOR THE TEST YEAR ENDED JUNE 30, 2004**

Revenue & Expenses	Adj #	Description	\$ MUI	\$ ORS
<b>ADJUSTMENTS FOR AFTER CONSTRUCTION (PHASE II) (continued)</b>				
<b>(N) O &amp; M Expenses</b>	46	ORS proposes to adjust O&M Expense - Chemical expenses to reflect the projected expense after construction. In the As Adjusted calculation ORS proposed no adjustment in the booked balance of \$10,639. Therefore the adjustment to get to the after construction expense is \$10,639 less \$5,000 (per application) equals an adjustment of (\$5,639). (Au)	(5,000)	(5,639)
	48	ORS proposes to adjust O&M expense - Utilities expense to reflect the change in amount from the As Adjusted balance to the After Construction amount as proposed by MUI. This is an adjustment from per books of \$40,963 to \$ 60,000 (per application). (Au)	20,000	19,037
	49	ORS proposes to adjust O&M expense - Insurance expense to reflect the change in amount from the As Adjusted balance to the After Construction amount as proposed by MUI. This is an adjustment from per books of As Adjusted of \$73,699 to \$98,000 as proposed in the application. (Au)	10,000	24,301
			<u>25,000</u>	<u>37,699</u>
<b>(O) G &amp; A Expenses</b>				
<b>(P) Dep &amp; Amort Expenses</b>	45	ORS proposes to adjust depreciation expense for plant in service using ORS recommended depreciation rates including plant upgrades proposed in Phase II. ORS reduced depreciation for expenses associated with Contributions In Aid of Construction. ORS also proposes to allocate certain plant in service to Development Service, Inc. and Bush River Utilities, Inc. (W/W and Au)	46,750	34,062
			<u>46,750</u>	<u>34,062</u>
<b>(Q) Taxes Other Than Income</b>	47	ORS proposes to adjust Taxes Other Than Income to reflect an increase in property taxes and Gross Receipts tax. This adjustment is based upon MUI's estimated amount for Taxes in the After Construction phase. Gross Receipts taxes on the proposed increase would equal \$272. (Au)	5,000	6,904
<b>(R) Interest</b>	50	ORS proposes to adjust total interest expense to amount shown by MUI on its Application. This interest expense includes interest on customer deposits and interest expense on new plant. ORS calculated interest on customer deposit of \$2,051. MUI's application for After Construction operation includes interest of \$40,485. Therefore, ORS adjusted interest for after construction by \$38,434 so as to reflect total interest per application of \$40,485. (Au)	4,980	38,434
<b>(S) Income Taxes</b>	51	ORS proposes to adjust income taxes associated with the After Construction Proposed Increase. (Au)	6,238	(34,438)

Au - The Audit Department is primarily responsible for this adjustment.  
W/W - The Water/Wastewater Department is primarily responsible for this adjustment.



**MIDLANDS UTILITY, INC.**  
**DEPRECIATION EXPENSE ADJUSTMENT**  
**FOR THE TEST YEAR ENDED JUNE 30, 2004**

Date Acquired	Description	Amount \$	Allocation of Equipment %	Allocated Amount \$	Service Life years	Depr. Rate %	Depr. Expense \$	Accum. Depreciation \$
Jul-78	Utility Plant	124,500	100%	124,500	32	3.13%	3,897	105,219
Jan-80	Pumps Pipe MTS	64,429	100%	64,429	FD	FD	0	64,429
May-80	PVC Pipe	1,776	100%	1,776	30	3.33%	59	1,475
Aug-80	PVC Pipe	3,589	100%	3,589	30	3.33%	120	3,000
Mar-86	Pipe and Lines	89,659	100%	89,659	30	3.33%	2,986	56,734
Aug-86	Flow Meter	3,087	100%	3,087	FD	FD	0	3,087
Feb-87	Lines & Pump Station	55,490	100%	55,490	25	4.00%	2,220	39,960
Sep-87	Fully Depreciated	1,484,661	100%	1,484,661	FD	FD	0	1,484,661
Jan-88	Fully Depreciated	13,912	100%	13,912	FD	FD	0	13,912
Apr-88	Flow Meter	6,758	100%	6,758	FD	FD	0	6,758
May-88	Concrete Fencing	1,254	100%	1,254	25	4.00%	50	850
Jan-91	6 Mile Utility	42,666	100%	42,666	30	3.33%	1,421	19,894
Aug-91	Pump Motors	23,213	100%	23,213	15	6.67%	1,548	21,672
Nov-91	Sewer Lines	19,473	100%	19,473	30	3.33%	648	9,072
Dec-91	Sewer Lines	15,801	100%	15,801	30	3.33%	526	7,364
Dec-91	Pump	840	100%	840	15	6.67%	56	784
Mar-92	6 Mile Creek Line	161,243	100%	161,243	45	2.22%	3,580	46,540
Jul-92	Lines Easment	11,107	100%	11,107	40	2.50%	278	3,614
Nov-92	Fully Depreciated	8,822	100%	8,822	FD	FD	0	8,822
Mar-93	Line Addition	8,814	100%	8,814	30	3.33%	294	3,528
Jan-94	Flooring Office	3,243	100%	3,243	FD	FD	0	3,243
Oct-94	Arborage	4,254	100%	4,254	30	3.33%	142	1,562
Feb-95	Fully Depreciated	135,510	100%	135,510	FD	FD	0	135,510
Jul-95	AC Office	3,260	100%	3,260	15	6.67%	217	2,170
Jul-95	Parkwood Pump Station	10,958	100%	10,958	25	4.00%	438	4,380
Nov-95	Vanarsdale	14,997	100%	14,997	45	2.22%	333	3,330
Oct-96	Copier	3,670	100%	3,670	FD	FD	0	3,670
Nov-96	Sewer TAPS	63,000	100%	63,000	FD	FD	0	63,000 (A)
Nov-96	Computer	2,341	100%	2,341	FD	FD	0	2,341
Dec-96	Off & Lab Equipment	21,686	100%	21,686	15	6.67%	1,446	13,014
Feb-97	Pressure Truck (65% used by MUI)	67,543	65%	43,903	FD	FD	0	43,903
Feb-97	Backhoe	25,850	100%	25,850	12	8.33%	2,153	17,224
Feb-97	Chemical Feed System	16,735	100%	16,735	18	5.56%	930	7,440
Nov-99	Pumps - Orangeburg	20,685	100%	20,685	18	5.56%	1,150	6,900
Dec-99	Flow Meter	2,779	100%	2,779	FD	FD	0	2,779
Jan-00	Trencher (90% used by MUI)	5,000	90%	4,500	12	8.33%	375	1,875
Jan-00	Control Panel - Orangeburg	6,042	100%	6,042	18	5.56%	336	1,680
Mar-00	Pipe - Winnsboro	18,021	100%	18,021	30	3.33%	600	3,000
May-00	TAPS-Orangeburg	18,250	100%	18,250	FD	FD	0	18,250 (A)
May-00	Boring Tool	8,080	100%	8,080	15	6.67%	539	2,695
Nov-00	Lines - Winnsboro	11,263	100%	11,263	30	3.33%	375	1,875
	<b>Totals</b>	<b>2,604,261</b>		<b>2,580,121</b>			<b>26,717</b>	<b>2,241,216</b>
<u>Reclassified by Staff</u>								
Oct-97	PVC Pipe	19,505	100%	19,505	18	5.56%	1,084	8,672
Jan-02	Computer - Dell Computer	1,158	100%	1,158	6	16.67%	193	579
Mar-03	Computer - Microprice PC	1,148	100%	1,148	6	16.67%	191	382
Aug-03	Benshaw Drive	5,197	100%	5,197	18	5.56%	289	578
Dec-03	Pump	1,771	100%	1,771	15	6.67%	118	236
Feb-04	Teco Motor	534	100%	534	15	6.67%	36	36
Mar-04	Pump	3,393	100%	3,393	15	6.67%	226	226
Mar-04	Sewage Pump	844	100%	844	15	6.67%	56	56
Apr-04	Pump	1,092	100%	1,092	15	6.67%	73	73
May-04	Casing	1,031	100%	1,031	18	5.56%	57	57
May-04	Pump	2,828	100%	2,828	15	6.67%	189	189
<u>Allocated from BRUI</u>								
Jul-99	Trencher (90% used by MUI)	45,426	90%	40,883	12	8.33%	3,406	20,436
<u>Allocated from DSI</u>								
Jun-02	Truck - 94 Ford F250 (1/3 used by MUI)	23,249	33.33%	7,749	6	16.67%	1,292	3,876
Oct-03	CAT Backhoe (65% used by MUI)	53,550	65%	34,808	12	8.33%	2,900	5,800
Oct-03	CAT Generator (100% used by MUI)	37,000	100%	37,000	12	8.33%	3,082	6,164
	<b>Total Plant In Service</b>	<b>2,801,987</b>		<b>2,739,062</b>			<b>39,909</b>	<b>2,288,576</b>
<u>Depreciation Expense Associated with Tap Fees (CIAC)</u>						57,445		
Cumulative Tap Fees						4.51%		
Composite Rate Depreciation Rate							(2,591)	
Less: Depreciation Expense for Tap Fees							37,318	
Net Depreciation Expense								
Less: Per Book Depreciation Expense							(30,293)	
Depreciation Expense Adjustment							7,025	



**MIDLANDS UTILITY, INC.**  
**COMPUTATION OF INCOME TAXES**  
**FOR THE TEST YEAR ENDED JUNE 30, 2004**

	<u>As Adjusted Revenue</u>	<u>After Proposed Increase (Phase I)</u>	<u>After Construction Increase (Phase II)</u>
	\$	\$	\$
Operating Revenues	612,692	936,501	971,701
Less: Operating Expenses	598,114	605,475	684,140
Less: Interest Expenses	<u>0</u>	<u>0</u>	<u>38,434</u>
Taxable Income	14,578	331,026	249,127
State Tax Rate	<u>5%</u>	<u>5%</u>	<u>5%</u>
State Taxes	729	16,551	12,456
Federal Taxable Income	13,849	314,475	236,671
1st \$50,000 @ 15%	2,077	7,500	7,500
Next \$25,000 @ 25%	0	6,250	6,250
Next \$25,000 at 34%	0	8,500	8,500
Remaining Balance at 39%	<u>0</u>	<u>83,645</u>	<u>53,302</u>
Federal Income Taxes	2,077	105,895	75,552
Total State & Federal Income Taxes	<u>2,806</u>	<u>122,446</u>	<u>88,008</u>
Less: Per Book and As Adjusted Income Taxes	<u>0</u>	<u>2,806</u>	<u>122,446</u>
Net Income Tax Adjustment	<u><u>2,806</u></u>	<u><u>119,640</u></u>	<u><u>(34,438)</u></u>



**MIDLANDS UTILITY, INC.  
CUSTOMER GROWTH CALCULATION  
FOR TEST YEAR ENDED JUNE 30, 2004**

<b>Sewer Operations:</b>	<b>Per Books</b>	<b>Accounting &amp; Pro Forma Adjustments</b>	<b>As Adjusted</b>	<b>Effect of Proposed Increase (Phase I)</b>	<b>After Increase (Phase I)</b>	<b>Adjustment for After Construction (Phase II)</b>	<b>After Const. (Phase II)</b>
Net Operating Income	1,660	10,112	11,772	196,808	208,580	(9,027)	199,553
Growth Factor	0.013462	0.013462	0.013462	0.013462	0.013462	0.013462	0.013462
Customer Growth	22	136	158	2649	2808	(122)	2685

## Number of Customers:

Beginning	2,858	<b>Formula:</b>			
Ending	2,936	<b>Ending - Average =</b>			
Average	2,897	<b>Average</b>	<b>39</b>	<b>=</b>	<b>0.013462</b>



**MIDLANDS UTILITY, INC.**  
**INCOME STATEMENT**  
**FOR THE TEST YEAR ENDED JUNE 30, 2004**

	<u>\$</u>	<u>\$</u>
<u>Revenue</u>		
Service Revenue		956,194
<u>Total Operating Revenue</u>		956,194
<u>Expenses</u>		
Salaries - Officers	55,192	
Salaries - Other	156,550	
Repairs	71,772	
Taxes	29,528	
Interest	2,749	
Depreciation	30,293	
Chemicals	10,639	
Vehicle Expenses	18,305	
Professional Services	166,643	
Utilities	40,963	
Other Operating Expenses	8,388	
Rate Case Expenses	0	
Insurance	79,295	
Telephone & Office Expense	17,551	
DHEC Fines	30,451	
Contract Service (DSI)	0	
Total Operating Expense		718,319
Treatment Expense		265,021
Total Expenses		<u>983,340</u>
Operating Income		(27,146)
Other Income		<u>28,806</u>
Net Income before Taxes		1,660
Income Taxes		<u>0</u>
Total Income for Return		<u><u>1,660</u></u>



**MIDLANDS UTILITY, INC.  
BALANCE SHEET  
FOR TEST YEAR ENDED JUNE 30, 2004**

	\$	\$
<b><u>ASSETS</u></b>		
<b>Current Assets</b>		
Cash		44,071
<b>Fixed Assets</b>		
Land		8,000
Plant and Equipment	2,604,261	
Less: Accumulated Depreciation	<u>(2,474,339)</u>	129,922
<b>Other Assets</b>		
Due from Affiliates	30,097	
Unamortized Loan Cost	<u>80,885</u>	<u>110,982</u>
<b>Total Assets</b>		<u><u>292,975</u></u>

<b><u>LIABILITIES</u></b>		
<b>Current Liabilities</b>		
Payroll Taxes	855	
Notes Payable	<u>58,111</u>	58,966
<b>Other Liabilities</b>		
Customer Deposits	58,600	
Due to Affiliates	<u>1,683</u>	<u>60,283</u>
<b>Total Liabilities</b>		119,249

<b><u>EQUITY</u></b>		
Capital Stock	1,000	
Paid-in Capital	1,000	
Retained Earnings	<u>171,726</u>	<u>173,726</u>
<b>Total Liabilities and Equity</b>		<u><u>292,975</u></u>



MILLANDS UTILITY, INC.  
DEPRECIATION EXPENSE ADJUSTMENT  
AFTER CONSTRUCTION

AUDIT EXHIBIT A

Date Acquired	Description	Amount	Allocation of Equipment	Allocated Amount	Service Life	Depr. Rate	Depr. Expense	Accum. Depreciation
		\$	%	\$	years	%	\$	\$
Jul-78	Utility Plant	124,500	100%	124,500	32	3.13%	3,897	105,219
Jan-80	Pumps Pipe MTS	64,429	100%	64,429	FD	FD	0	64,429
May-80	PVC Pipe	1,776	100%	1,776	30	3.33%	59	1,475
Aug-80	PVC Pipe	3,589	100%	3,589	30	3.33%	120	3,000
Mar-86	Pipe and Lines	89,659	100%	89,659	30	3.33%	2,986	56,734
Aug-86	Flow Meter	3,087	100%	3,087	FD	FD	0	3,087
Feb-87	Lines & Pump Station	55,490	100%	55,490	25	4.00%	2,220	39,960
Sep-87	Fully Depreciated	1,484,661	100%	1,484,661	FD	FD	0	1,484,661
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Apr-88	Flow Meter	6,758	100%	6,758	FD	FD	0	6,758
May-88	Concrete Fencing	1,254	100%	1,254	25	4.00%	50	850
Jan-91	6 Mile Utility	42,666	100%	42,666	30	3.33%	1,421	19,894
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Nov-91	Sewer Lines	19,473	100%	19,473	30	3.33%	648	9,072
Dec-91	Sewer Lines	15,801	100%	15,801	30	3.33%	526	7,364
Dec-91	Pump	840	100%	840	15	6.67%	56	784
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Jan-94	Flooring Office	3,243	100%	3,243	FD	FD	0	3,243
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Feb-95	Fully Depreciated	135,510	100%	135,510	FD	FD	0	135,510
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Jul-95	Parkwood Pump Station	10,958	100%	10,958	25	4.00%	438	4,380
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Oct-96	Copier	3,670	100%	3,670	FD	FD	0	3,670
Nov-96	Sewer TAPS	63,000	100%	63,000	FD	FD	0	63,000 (A)
Nov-96	Computer	2,341	100%	2,341	FD	FD	0	2,341
Dec-96	Off & Lab Equipment	21,686	100%	21,686	15	6.67%	1,446	13,014
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Feb-97	Backhoe	25,850	100%	25,850	12	8.33%	2,153	17,224
Feb-97	Chemical Feed System	16,735	100%	16,735	18	5.56%	930	7,440
Nov-99	Pumps - Orangeburg	20,685	100%	20,685	18	5.56%	1,150	6,900
Dec-99	Flow Meter	2,779	100%	2,779	FD	FD	0	2,779
Jan-00	Trencher (90% used by MUI)	5,000	90%	4,500	12	8.33%	375	1,875
Jan-00	Control Panel - Orangeburg	6,042	100%	6,042	18	5.56%	336	1,680
Mar-00	Pipe - Winnsboro	18,021	100%	18,021	30	3.33%	600	3,000
May-00	TAPS-Orangeburg	18,250	100%	18,250	FD	FD	0	18,250 (A)
May-00	Boring Tool	8,080	100%	8,080	15	6.67%	539	2,695
Nov-00	Lines - Winnsboro	11,263	100%	11,263	30	3.33%	375	1,875
Totals		<u>2,604,261</u>		<u>2,580,121</u>			<u>26,717</u>	<u>2,241,216</u>
<u>Reclassified by Staff</u>								
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Jan-02	Computer - Dell Computer	1,158	100%	1,158	6	16.67%	193	579
Mar-03	Computer - Microprice PC	1,148	100%	1,148	6	16.67%	191	382
Aug-03	Benshaw Drive	5,197	100%	5,197	18	5.56%	289	578
Dec-03	Pump	1,771	100%	1,771	15	6.67%	118	236
Feb-04	Teco Motor	534	100%	534	15	6.67%	36	36
Mar-04	Pump	3,393	100%	3,393	15	6.67%	226	226
Mar-04	Sewage Pump	844	100%	844	15	6.67%	56	56
Apr-04	Pump	1,092	100%	1,092	15	6.67%	73	73
May-04	Casing	1,031	100%	1,031	18	5.56%	57	57
May-04	Pump	2,828	100%	2,828	15	6.67%	189	189
<u>Allocated from BRUI</u>								
Jul-99	Trencher (90% used by MUI)	45,426	90%	40,883	12	8.33%	3,406	20,436
<u>Allocated from DSI</u>								
Jun-02	Truck - 94 Ford F250 (1/3 used by MUI)	23,249	33.33%	7,749	6	16.67%	1,292	3,876
Oct-03	CAT Backhoe (65% used by MUI)	53,550	65%	34,808	12	8.33%	2,900	5,800
Oct-03	CAT Generator (100% used by MUI)	37,000	100%	37,000	12	8.33%	3,082	6,164
<u>Utility Plant Upgrades</u>								
Oct-06	Closing Cost	66,727	100%	66,727	32	3.13%	2,089	0
Oct-06	Upgrade Cost	<u>1,007,530</u>	100%	<u>1,007,530</u>	32	3.13%	<u>31,536</u>	<u>0</u>
Total Plant In Service		<u>3,876,244</u>		<u>3,813,319</u>			<u>73,534</u>	<u>2,288,576</u>
<u>Depreciation Expense Associated with Tap Fees (CIAC)</u>								
Cumulative Tap Fees						57,445		
Composite Rate Depreciation Rate						3.75%		
Less: Depreciation Expense for Tap Fees							(2,154)	
Net Depreciation Expense							<u>71,380</u>	
Less: Per Book Depreciation Expense							(37,318)	
Depreciation Expense Adjustment							<u>34,062</u>	

FD = Fully Depreciated CIAC= Contributions in Aid of Construction

Note A: These items were fully amortized as a result of the last rate case and Commission's order.